

Senate File

S. HRG. 98-504

**OPTIONS TO IMPLEMENT AN INTERIM RETIREMENT
PROGRAM FOR CIVIL SERVICE EMPLOYEES WHO
WILL BE COVERED BY SOCIAL SECURITY**

HEARING

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE,
POST OFFICE, AND GENERAL SERVICES

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

SEPTEMBER 14, 1983

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OPTIONS TO IMPLEMENT AN INTERIM RETIREMENT PROGRAM FOR CIVIL SERVICE EMPLOYEES WHO WILL BE COVERED BY SOCIAL SECURITY

WEDNESDAY, SEPTEMBER 14, 1983

U.S. SENATE,
SUBCOMMITTEE ON CIVIL SERVICE,
POST OFFICE, AND GENERAL SERVICES,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 138, Dirksen Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Present: Senator Stevens.

Staff present: Wayne A. Schley, staff director; Jamie Cowen, special counsel; Kay Frances Dolan, professional staff member; Patricia A. Butler, acting chief clerk; and Edwin S. Jayne, minority staff director.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. We are holding a hearing on a report issued by the General Accounting Office on August 31 of this year which discusses the effect of requiring new Federal employees to be covered by both social security and civil service retirement.

Ever since consideration of the social security bill, I have been warning people that something must be done to remedy what could be a very serious recruitment problem for the Federal Government. Requiring new Federal employees to contribute 14 percent toward civil service retirement and social security will, in my opinion, stymie recruitment for many Federal agencies.

We are now in the process of working with the full committee and with congressional support agencies in developing a major new retirement system for these new Federal employees. However, that work cannot be completed until late next year and the enactment of final legislation would probably not occur until 1985.

Therefore, there is a 2-year hiatus remaining for these new Federal employees.

During the consideration of the social security bill, I tried to get this matter dealt with. Unfortunately that was not possible. We did, however, ask the General Accounting Office to analyze the problem. It has done so, and has recommended something be done temporarily to remedy this situation.

I compliment you, Mr. Comptroller General, for involving yourself personally in this matter. It is my hope that we will be able to form a consensus, hopefully coming out of this hearing, on an approach to remedy this problem.

It would be my desire to attach whatever solution we arrive at to the reconciliation bill if that bill is considered. If not, it would be my intention to try to put it as a rider on one of the appropriations bills.

I do welcome you, and we would be happy to have your statement, Mr. Bowsheer.

TESTIMONY OF CHARLES A. BOWSHER, COMPTROLLER, GENERAL OF THE UNITED STATES, ACCOMPANIED BY ROBERT SHELTON, PROJECT MANAGER, GENERAL ACCOUNTING OFFICE

Mr. BOWSHER. Thank you, Mr. Chairman.

I appreciate the opportunity to appear today to present our views on the effects of temporarily requiring new Federal employees to contribute to both social security and the civil service retirement system.

We are pleased that your subcommittee has undertaken these hearings to remedy this situation. We have been concerned that the extra contributions would place the Government at a competitive disadvantage in recruiting and retaining employees, because they would result in a substantial reduction in take-home pay.

While employees in the private sector must pay social security taxes, few are required to contribute to their employer-sponsored retirement programs.

Most employees in the civil service system must pay 7 percent of their salary into the retirement fund. Some participants contribute even higher amounts, and all employees pay an additional 1.3 percent medicare tax.

Beginning in January 1984, newly hired Federal employees and former employees rehired after a break in service of 1 year or more will also be covered by social security. Therefore, in addition to retirement fund contributions and the medicare tax, they will be required to pay social security taxes of 5.4 percent in 1984, and 5.7 percent in 1985. While medicare and social security taxes currently apply only to the first \$35,700 of the annual salary, nearly all new employees will receive salaries below this level. Thus, they will be contributing a total of about 14 percent of their salary to these programs until a new retirement system to supplement social security is established.

It is anticipated that the new system will not be in place until sometime in 1985.

We issued a letter report to the Senate Committee on Governmental Affairs on August 31, 1983, which highlights our concerns and discusses some options for dealing with this problem. I would like to submit a copy of this report for the record, and now summarize the options.

Senator STEVENS. We will print it in full.

[The material referred to follows:]



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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AUGUST 31, 1983

The Honorable William D. Ford
Chairman, Committee on Post Office and
Civil Service
House of Representatives

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental
Affairs
United States Senate

Subject: Effect Of Requiring New Federal Employees
To Be Temporarily Covered By Both Social
Security And Civil Service Retirement
(GAO/OCG-83-1)

We have analyzed the potential effects of requiring Federal employees hired on or after January 1, 1984, to be temporarily covered by both social security and the civil service retirement system. This situation is the result of the April 1983 social security amendments (Public Law 98-21) which provided social security coverage for all newly hired Federal employees, including former employees who are rehired after a break in service of 1 year or more.

A new retirement system to supplement social security coverage for these employees is not expected to be in place by the January 1, 1984, effective date. Therefore, under current law until the new system is established, the employees must also participate in the civil service retirement system (CSRS) and pay the required employee contributions to both systems.

Most employees in the civil service system must pay 7 percent of their salary into the retirement fund. Members of Congress pay 8 percent, and congressional staff, law enforcement and firefighter personnel pay 7.5 percent. All employees are also required to pay the 1.3-percent medicare tax. Employees hired after January 1, 1984, will also be required to pay social security taxes of 5.4 percent in 1984 and 5.7 percent in 1985. While both social security and medicare taxes currently apply only to the first \$35,700 of annual salary, nearly all new employees will receive salaries below this level. Thus, they will be contributing a total of about 14 percent to these programs.

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By contrast, while employees in the private sector must pay social security taxes, few are required to contribute to their employer-sponsored retirement plans. A 1982 survey by the Bureau of Labor Statistics of plans covering 17 million workers showed that 93 percent were in plans fully paid for by their employer.

For purposes of our analysis, we assumed the new supplemental retirement system will retroactively cover all periods of service by new employees subsequent to January 1, 1984. However, it is difficult to speculate at this time on what the new system will provide or how it will be implemented. For example, it might not require any employee contributions other than social security taxes. Presumably, any contributions employees make to the civil service system during the period of temporary coverage that are greater than the amount required by the new system would be refunded. In any event, it is clear that, if, as is anticipated, the new supplemental retirement system is not established until the end of 1985, employees hired after January 1, 1984, will receive little or no benefits from the civil service system for their retirement contributions. Five years of civilian service is required for vesting under the civil service system, and the only benefits available before 5 years is a survivor annuity payable to the spouse and children of an employee who dies after at least 18 months of service.

The Office of Personnel Management (OPM) estimates that 385,000 employees would be affected by the dual contribution requirement by the end of 1985.

The extra contributions to be required of new employees would place the Government at a competitive disadvantage because of the substantial reduction in take-home pay thus adversely affecting recruitment and retention efforts. Officials in the five departments and agencies we visited told us that the higher retirement contributions would make recruiting more difficult particularly in those occupations where the Government pays special salary rates.

In view of the very limited benefits that employees will derive from temporarily contributing to the civil service system and the problems the increased contributions may cause, we evaluated several alternatives to the current law that could alleviate this situation.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to identify personnel management and financial impacts resulting from the requirement for new

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employees to contribute to both retirement systems and evaluate possible alternatives to that requirement.

At OPM, we obtained data on estimated accessions and pay rates. We obtained the views of responsible officials on the effects of higher retirement contributions on recruiting and retention. We also obtained data on recruiting, retention, and special pays at the Veterans Administration (VA), the National Aeronautics and Space Administration (NASA), and the Departments of the Army, the Navy, and the Air Force. These departments and agencies were selected because they are the largest users of special pay due to current recruiting and retention problems. We also obtained views of responsible officials in those agencies on the effects of the higher retirement contributions on recruiting and retention. At the Bureau of Labor Statistics, Department of Labor, we obtained data on private sector pension plans.

To determine financial impacts in fiscal years 1984 and 1985, we estimated the contributions to CSRS for the new employees. We also analyzed social security and CSRS programs to identify potential benefits for these employees during the 2-year period.

This report focuses on CSRS as it covers most Federal employees. However, some Federal employees are covered under other retirement systems, and they will also have to temporarily contribute to social security and their retirement system. These systems include the Foreign Service, the Central Intelligence Agency, the District of Columbia, and the Federal Reserve Board.

FINANCIAL IMPACT

We estimate that contributions to the civil service retirement trust fund for individuals having dual coverage will be as follows:

<u>Fiscal year</u>	<u>Employee contributions</u>	<u>Employing agency contributions</u>	<u>Total</u>
1984	\$ 82,040,000	\$ 82,040,000	\$164,080,000
1985	<u>387,520,000</u>	<u>387,520,000</u>	<u>775,040,000</u>
Total	<u>\$469,560,000</u>	<u>\$469,560,000</u>	<u>\$939,120,000</u>

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The above estimates are based on 178,000 accessions in 1984 with a related payroll of \$1,172,000,000 and a total of 385,000 accessions at the end of 1985 with a payroll of \$5,536,000,000.

Any changes to the contribution requirements would reduce these receipts accordingly.

POTENTIAL CSRS BENEFITS FOR NEW EMPLOYEES

We reviewed the eligibility requirements of CSRS to estimate the potential benefits that could be paid to the affected employees during the 2 years of temporary coverage. We found that most of the 385,000 new or rehired employees will receive no CSRS benefits. Although these employees will have contributed about \$470 million to CSRS, OPM estimates that disability or death benefits will be paid in 750 instances. OPM estimates such benefit payments will be \$500,000 in 1984 and \$2,900,000 in 1985. (As previously indicated, we would assume that any employee contributions to CSRS during the 2-year period that were greater than the contributions eventually required by the new supplemental retirement system would be refunded to the employees.)

None of the newly hired employees would have the necessary 5 years of service to be eligible for civil service disability benefits. However, on the basis of its mortality rate estimates, OPM estimates that, during the 2-year period, civil service death benefits would be paid in about 100 instances to survivors of newly hired employees.

Rehired employees could be eligible for civil service disability benefits and their survivors for death benefits, but the precise number of instances cannot be estimated because data is lacking on their prior Federal service. However, if all rehired employees had 5 years of prior Federal civilian service, OPM estimates that 450 individuals could receive disability benefits and there could be 200 instances of death benefits during the 2-year period.

Prior employment covered by social security and current Federal employment would be considered in determining whether these employees or their survivors were eligible for social security benefits. Lacking data on prior employment, a precise estimate of the number of instances where such benefits would be paid cannot be made.

A comparison of the disability and death benefit eligibility requirements and benefit provisions of these systems is shown in the enclosure.

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PROBLEMS IN RECRUITING AND
RETAINING QUALIFIED PERSONNEL

The requirement for new employees to contribute to two retirement systems could make it more difficult to recruit and retain qualified individuals for the Federal service, particularly those in special pay categories because the dual contributions will cause a substantial reduction in employees' take-home pay.

The Government over the years has experienced difficulty in recruiting and retaining people in particular occupations because of the difficulty in competing with the private sector. Consequently, the Government has the authority to pay salaries over and above the normal amounts when vacancies occur and when adjustments to salaries are needed to make them competitive with the private sector. These adjusted salaries are referred to as special pay rates. In 1982, agencies were paying about \$93 million annually in supplements over and above regular rates to about 34,300 employees.

The following examples of occupations with recruitment and/or retention problems are based upon situations in Federal agencies. In our opinion, they are illustrative of the problems which could result if the requirement for contributions to both systems is not eliminated.

Clerks and secretaries

Clerical and secretarial positions in certain geographic areas are designated for special pay rates. For example, the Air Force in Los Angeles has been paying special rates to individuals in these occupations. The reason for the pay differential, according to the Air Force, is to alleviate the recruiting and turnover problems caused by industry recruiting these individuals at more than the regular Government salary rates. Requiring employees to contribute to two systems could aggravate an already serious turnover problem according to the Air Force.

According to an OPM representative responsible for managing the special pay program as well as several agency officials, it is not unusual for individuals at the lower grade levels to change jobs for as little as a \$5 to \$10 increase in their paychecks. The contribution to the two retirement systems would cost an additional \$22 every payday for individuals at the current GS-3 entry level. And, for entry level GS-5s and GS-7s, the additional cost each payday would be \$28 and \$34, respectively. Since lower salary differentials than these may

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influence the decision to leave an existing job, it is likely that reductions of the foregoing magnitude will increase future recruitment and retention problems and possibly cause the payment of special pay rates to even more employees.

Engineers

NASA, the Army, the Navy, and the Air Force all recruit engineers with special pay rates. NASA recruits many engineers while they are still in school under what is known as the co-op program. For example, an individual could attend school for two semesters, then work a semester, repeating the cycle until graduation. According to NASA, this program not only helps instill a sense of loyalty to NASA but helps the co-ops pay for their tuition and books when they return to college. Normally hired at a GS-3 level, the co-ops' contributions to the two retirement systems will be \$51 of their \$410 biweekly salary (about \$29 to civil service retirement and \$22 to social security). The potential effect on NASA's permanent engineering staff is illustrated by the following. At any one time, NASA has about 1,000 co-ops of whom about 60 percent continue through graduation and become permanent employees. If the program were to suffer, NASA would have to be more successful in its recruiting of engineering graduates. However, one reason NASA relies on this program is its need to supplement its recruiting of engineering school graduates. NASA questions the likelihood of as many quality individuals applying for the co-op program in light of this retirement contribution, particularly in an improving economy.

The Army Corps of Engineers also anticipates that the double contribution for a retirement program will have an adverse effect on recruiting of new graduates who, in the past, have already found Federal employees' benefits to be less attractive than those offered by many private organizations.

Physicians

VA has had a difficult time recruiting enough physicians to fill its needs. To help meet its demand, VA pays physicians an amount over and above their basic salary. For example, physicians hired by VA can be paid a basic salary of \$50,000 and a supplement of \$25,000. The entire \$75,000 is a special salary rate and is included in the employee's salary base for civil service retirement purposes. Consequently, the contribution to both systems will be about \$7,200 -- about \$2,000 more than the amount paid by employees hired before January 1, 1984. According to VA, this will likely make it more difficult to recruit and retain new physicians.

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ALTERNATIVES TO DUAL CONTRIBUTIONS

We evaluated several alternatives which would alleviate adverse impacts on recruiting and retention which could result from the requirement for greater retirement contributions.

These alternatives were:

1. Provide a temporary tax credit to Federal employees covered by the social security system for the amount of their contribution to the CSRS.
2. Provide no CSRS coverage; therefore, no contributions to CSRS would be required.
3. Provide temporary CSRS coverage without requiring employee contributions but with a 100-percent social security offset against any civil service benefits received.
4. Voluntary temporary participation in CSRS by new employees.

Under each of these alternatives, employees' service credits would be transferred to the new supplemental system when it is established.

The alternatives are discussed in more detail below along with the advantages and disadvantages of each one.

Tax credit

One way to alleviate the impact of greater retirement contributions would be to provide the new employees an income tax credit for their CSRS contributions during the 2-year period. Bills have been introduced in the House of Representatives (H.R. 3371) and the Senate (S. 1522) to permit such credits. However, timing of the tax credit could be a disadvantage, inasmuch as the employees may not benefit from the credit until the following year when they file their tax returns.

This alternative would continue full employee and employer contributions to the civil service trust fund. Employees would have greater disability and death benefits than those hired prior to 1984 because of the dual coverage but would have contributed less. Since the proposed bills do not change the refund provisions of CSRS, employees could receive not only the tax credit but also a refund of their contributions if they later left Government service.

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No CSRS coverage

Under this alternative, the social security program would provide disability and survivor benefit coverage for new employees but, depending on individual circumstances, benefits could be greater or less than CSRS benefits. No employee or employer contributions to CSRS would be required.

This alternative avoids any duplicated benefits and the potential administrative burden of refunding employee contributions if a noncontributory supplemental plan is later established or the contribution rate under the new plan is lower.

Recruiting may be more difficult than under other alternatives because of the uncertainty about the level of future retirement benefits. Also, this alternative would generally provide less disability and death benefits, especially for rehired employees who might otherwise qualify for civil service benefits because of prior Federal service but who may not have sufficient service to qualify for social security benefits.

Social security offset

This alternative would provide employees coverage under both systems, but civil service benefits would be reduced by the amount of any benefits received from social security. While employee contributions to CSRS would not be required, agencies would continue to make CSRS contributions which would be used to finance CSRS benefits for these employees.

The alternative assures disability and death benefit coverage comparable to coverage provided employees hired before 1984 but creates some administrative burden in computing the social security offset. It does, however, avoid the potential administrative burden of refunding employee contributions if a noncontributory supplemental plan is later established or the contribution rate under the new plan is lower.

Voluntary participation

While all new employees would have social security coverage, this alternative would permit those employees who desired greater coverage to participate in CSRS. Participating employees and their agencies would each be required to contribute 7 percent of pay to CSRS.

This alternative would give participating employees more coverage than that provided employees hired prior to 1984.

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While it would give the individual the responsibility for determining the adequacy of coverage, it would be very costly for the limited additional coverage most employees would receive.

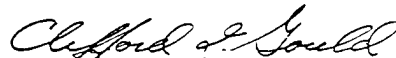
CONCLUSION

Although current law requires all new employees as of January 1, 1984, to contribute to dual retirement systems, it seems likely that only a very small number of those employees would receive any benefits from the civil service system before the supplemental system is established. This being the case, requiring them to temporarily contribute to both systems appears to be an inequity. The dual contribution will reduce employees' take-home pay if the situation is not remedied by the Congress. We believe the Federal Government could experience difficulties in recruiting and/or retaining quality individuals particularly in those occupations where the individuals receive special pay rates because the Government has difficulty in competing with private industry. In some cases, special pay rates might have to be increased or paid to even more employees if the dual contribution requirement is not changed.

Resolution of this problem prior to January 1, 1984, would relieve new employees from the burden of contributing to both social security and the CSRS.

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Copies of this report are being sent to the Director, Office of Management and Budget; Director, OPM; and other interested parties.



Clifford I. Gould
Assistant to the Comptroller
General for Federal
Retirement Matters

Enclosure

ENCLOSURE

ENCLOSURE

COMPARISON OF ELIGIBILITY REQUIREMENTS
AND DISABILITY AND SURVIVOR BENEFITS

Civil service

Disability benefits

Employees must have completed 5 years of creditable civilian service and, because of a disease or injury, cannot provide useful and efficient service in positions at their current grade in the same agency and commuting area.

Benefit is equal to the larger of amounts derived from the general retirement benefit formula or a guaranteed minimum which is generally 40 percent of the high-3 year average pay.

Death benefits

The deceased employee must have completed 18 months of creditable civilian service.

Spouse's benefit is equal to 55 percent of the deceased employee's earned annuity or a guaranteed minimum. Generally, the minimum would be 55 percent of 40 percent of high-3 year average pay. A children's benefit is also payable.

Social security

An individual must be unable to engage in any substantial gainful activity by reason of any physical or mental impairment which can be expected to result in death or last more than 12 months. The individual also must have at least 20 quarters of coverage in the last 40 quarters unless disabled prior to age 31, in which case, fewer quarters are required.

Benefit is equal to the worker's basic benefit computed as though the worker had attained age 62.

The deceased employee must have at least 6 quarters of coverage during the last 13 quarters.

If spouse is caring for an eligible child, the spouse's benefit is generally equal to 75 percent of the deceased employee's basic benefit. The child is also entitled to the same benefit as the spouse. Also a lump-sum benefit of \$255 is payable.

Mr. BOWSHER. Thank you, Mr. Chairman. It's difficult to predict at this time what a supplemental retirement system will provide or how it will be implemented. Presumably, it will retroactively cover all service by new employees after January 1, 1984. We also assume that any contributions new employees will make to the civil service system during the period of temporary coverage that are greater than the amount required by the new system would be refunded.

The Office of Personnel Management estimates that by the end of 1985, a total of 385,000 Federal employees would be affected by the dual contribution requirement. OPM estimates that these employees will have contributed about \$470 million to the civil service retirement fund during this 2-year period, but only a very few of them are expected to receive any civil service benefits from their contribution.

This is because new employees must have 5 years of civilian service to be eligible for disability benefits and must have been employed at least 18 months before their survivors could receive death benefits.

Social security requires coverage of up to 5 years, depending on an employee's age, for disability benefits, and 18 months for death benefits.

Thus, none of the new employees would be eligible for disability benefits from the civil service system, and only those hired in 1984 would be eligible for civil service death benefits.

Rehired employees could be eligible for more benefits because of their prior Federal service.

Overall OPM estimates that civil service disability and death benefits will be paid in about 750 instances and such payments are estimated to be about \$500,000 in 1984, and about \$2.9 million in 1985.

The extra contributions to be required of new employees will cause a substantial reduction in their take-home pay. This could adversely affect the Government's recruitment and retention effort.

Officials in the five departments and the agencies that we visited were very concerned that the higher retirement contributions would place the Government at a competitive disadvantage, especially in those occupations where the Government already has to pay special salary rates to compete with the private sector.

In 1982, agencies were paying about \$93 million annually in salary supplements over and above the regular rates for 34,300 such employees.

Now, in view of the limited benefits employees will derive from temporarily contributing to this civil service system, and the problems the increased contributions may cause, we evaluated several alternatives that could resolve this situation.

These alternatives were, one, provide a temporary tax credit to Federal employees covered by the social security system for the amount of their contribution to the civil service system. Two, provide no civil service coverage; therefore, no contribution to the civil service system would be required.

Three, provide temporary civil service coverage without requiring employee contributions, but with 100 percent social security

offset against any civil service benefits received. And, four, provide for voluntary temporary participation in the civil service system by new employees.

Under each of these alternatives, employees' service credits would be transferred to the new supplemental system when it is established.

I would like to discuss the alternatives a little more in detail along with the advantages and the disadvantages of each one. First, the tax credit alternative. One way to alleviate the impact of greater retirement contributions would be to provide the new employees an income tax credit for their civil service contributions during the 2-year period. Bills have been introduced in the House of Representatives, H.R. 3371, and the Senate, S. 1522, to permit such credits.

However, timing of the tax credit could be a disadvantage inasmuch as the employees may not benefit from the credit until the following year when they file their tax return.

This alternative would continue full employee and employer contributions to the civil service trust fund. Employees would have greater disability and death benefits than those hired prior to 1984 because of the dual coverage, but would have contributed less because of the tax credit.

Since the proposed bills do not change the refund provisions of the civil service system, employees could receive not only the tax credit, but also a refund of their contributions if they later left Government service.

Now, let me speak to what I call the no civil service coverage alternative. Under this alternative, the social security program would provide disability and survivor benefit coverage for new employees, but, depending on individual circumstances, benefits could be more or less than civil service benefits.

No employee or employer contributions to the civil service system would be required. This alternative avoids any duplicate benefits, and the potential administrative burden of refunding employee contributions if a noncontributory supplemental plan is later established, or the contribution rate under the new plan is lower.

Recruiting may be more difficult than under the other alternatives because of the uncertainty about the level of future retirement benefits. Also, this alternative would generally provide lower disability and death benefits, especially for rehired employees, who might otherwise qualify for civil service benefits because of prior Federal service, but who may not have sufficient service to qualify for social security benefits.

Now, the social security offset alternative. This alternative would provide employee coverage under both systems, but civil service benefits would be reduced by the amount of any benefits received from social security. While employee contributions to the civil service system would not be required, agencies would continue to make civil service contributions which would be used to finance civil service benefits for these employees.

The alternative assures disability and death benefit coverage comparable to that provided employees hired before 1984, but at less cost to the new employee. However, it creates some adminis-

trative burden, not large, but some, in computing the social security offset.

It does avoid the potential administrative burden of refunding the employee contributions if a noncontributory supplemental plan is later established or the contribution rate under that new plan is lower.

The last alternative is what we refer to as voluntary participation. While all new employees will have social security coverage, this alternative would permit those employees who desire greater coverage to participate in the civil service system. Participating employees and their agencies would each be required to make the regular contributions to the civil service system.

This alternative would give participating employees more coverage than that provided employees hired prior to 1984. While it would give the individual the responsibility for determining the adequacy of coverage, it would be very costly for the limited additional coverage most employees would receive.

In summary, Mr. Chairman, unless the current law is changed, new employees will contribute about \$500 million to the civil service system, but only a very small number will receive any benefits from those contributions before the new system is established.

Moreover, the dual contributions will reduce employees take-home pay, making recruiting and retention of quality individuals much more difficult. In some cases, special pay rates might have to be increased or paid to more employees.

Resolution of this problem prior to January 1, 1984, would relieve new employees from the burden of contributing to both social security and the civil service system.

We would be pleased to answer any questions.

Senator STEVENS. Thank you very much.

What is the situation in the private sector as far as such contributions?

Mr. BOWSHER. Most private sector employees, of course, are contributing to the social security system, but their supplemental plans, you might say, are generally employer financed.

There's a recent study by the Bureau of Labor Statistics. This study covered 17 million private sector employees, and that showed that 93 percent were in retirement plans fully paid by their employers. The other 7 percent had to contribute about 4 percent of their salary for the supplemental retirement plans.

You can see 93 percent was employer paid.

Senator STEVENS. Do you have any idea what the impact of the current situation would be on your agency if we don't make any changes in the existing law?

Mr. BOWSHER. Well, I think it would be difficult. It would add to our problem.

We have enough problems, really, in hiring good quality people and competing against the big accounting firms and the big management consulting firms and the law firms for the top people coming out of school, and this would be just one more burden that we would have to explain away, to tell the people that come a year from now that it might be resolved.

But I think it would be an unnecessary burden if it can be avoided at all.

Senator STEVENS. There's another option. We can require that the Federal Government as an employer make the employer's contribution, and that it make the net contributions that employees would have made that would not have been withdrawn by departing employees.

Have you got any idea what that would cost?

Mr. BOWSHER. It would be somewhat less than 14 percent, but we don't have a good figure. Our general feeling would be that it would be better to wait until the new system is developed and figure out the funding, of how it should be funded and everything like that.

I think if you get into some of these alternatives where you're taking in money and then having to handle it later and things like that makes it fairly complicated.

Senator STEVENS. But clearly, the employer contribution could be made.

Mr. BOWSHER. Yes.

Senator STEVENS. The employee contribution could be made by the Federal Government at a later date based upon actual experience as to how many stay.

Mr. BOWSHER. A lot would depend on how the new system is designed, and we just don't have right now any figure on that. We could do some additional study on that if you would like.

Senator STEVENS. But your assumption was that if the contributions for the new system were less than that required for the civil service retirement system, there would be a refund in any event even for those who stayed. I think that's a valid assumption.

Mr. BOWSHER. Yes, sir.

Senator STEVENS. Based upon just equity. Did you determine how—well, you have no way to determine how much that would be.

Mr. BOWSHER. No.

Senator STEVENS. There seems to be a fear that if the new employees don't contribute to the existing civil service retirement system, the fund will be even more in jeopardy. Did you examine that?

Mr. BOWSHER. Well, I don't think there's any question that the fund is going to be probably more in jeopardy. But the Congress and the Government are going to have to provide for that retirement program if they make this change, as they're planning to, to have the new people under social security and then some supplemental. I think that that is a problem that is just going to have to be dealt with.

Senator STEVENS. Have you studied this action that was taken in Maryland where there was a refund to the employees who went into the new system?

Mr. BOWSHER. No, we haven't, Mr. Chairman.

Senator STEVENS. That has actually taken place now. Would it be possible for you to examine that for us to see what the experience was under that approach?

Mr. BOWSHER. Yes, sir.

Senator STEVENS. As I understand it, they did devise a new system and it was based on social security. There was a refund to those people who agreed to move into the new system who had rights existing under the prior plan in Maryland.

Mr. BOWSHER. I see. Let us take a look at that.
[The information follows:]

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., September 20, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Civil Service, Post Office, and General Services, Committee on Governmental Affairs, U.S. Senate.

DEAR MR. CHAIRMAN: At the September 14, 1983, hearing on options to implement an interim retirement program for Federal employees, you asked how employee contributions were handled when the State of Maryland established its new retirement system.

In 1979, the State of Maryland established a new retirement system for teachers and regular employees hired after December 31, 1979. Because both the prior retirement system and the new system included social security coverage, there was no transition period. The new system required employee contributions only on salaries above the social security tax base; thus, the new system was essentially noncontributory for newly hired employees.

Employees covered by the prior retirement system, which required employee contributions on all earnings, were permitted to transfer to the new system. The transferring employees received a refund of past contributions on earnings below the social security tax base. Employee contributions on earnings above the tax base were transferred to the new retirement system along with all employer contributions for these employees. As of August 31, 1983, about 52,000 employees have elected to transfer to the new system and have received contribution refunds of \$196 million.

Sincerely yours,

ROBERT E. SHELTON
(For Clifford I. Gould,
Assistant to the Comptroller General
for Federal Retirement Matters).

Senator STEVENS. We could cover new hires with the disability and survivorship portions of the civil service retirement system, exclude them from further participation in the existing system, and give them credit in the new system without contribution. Did you examine that option?

Mr. BOWSHER. We can. We have not, no.

Senator STEVENS. We could specify that anyone who came in after 1984 would be given credit for their service prior to the adoption of the new system without contribution.

In the meantime, the only benefits that could be derived under the current system are disability and survivor benefits. Do you agree with that?

Mr. BOWSHER. That's correct. Yes.

Senator STEVENS. I would like to have your report as to how that would affect this from a financial point of view.

Mr. BOWSHER. We'd be happy to do that.

[The information follows:]

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., September 16, 1983.

Hon. TED STEVENS,
Chairman, Subcommittee on Civil Service, Post Office, and General Services, Committee on Governmental Affairs, U.S. Senate.

DEAR MR. CHAIRMAN: During the September 14, 1983, hearing on options to implement an interim retirement program for Federal employees, you asked us to provide additional data on the total cost of providing interim civil service death and disability coverage for employees who will also be covered by social security.

The Office of Personnel Management (OPM) estimates that during the 2-year interim period, death benefits could be paid in 300 instances and 450 individuals could receive disability benefits. Civil service trust fund outlays for these benefits are estimated to be \$500,000 in 1984 and \$2,900,000 in 1985. The present value of the total

civil service outlays for these benefits over the lifetimes of the employees and their survivors are estimated by OPM to be \$100 million. This amount is equal to 1.5 percent of the \$6.7 billion payroll for the covered employees during the 2-year period.

We want to point out that these outlays would be reduced by any social security benefits received if that option is adopted. However, because of the lack of data, the amount of social security benefit payments cannot be calculated.

Sincerely yours,

THOMAS A. EICKMEYER
(For Clifford I. Gould,
Assistant to the Comptroller General
for Federal Retirement Matters).

Senator STEVENS. Again I congratulate you and I thank you for the promptness of your report. I think it is a very difficult problem that we ought to address before the first of the year, and I appreciate your cooperation.

Mr. BOWSHER. Thank you very much, Mr. Chairman.

Senator STEVENS. We now have the Director of the Office of Personnel Management, Mr. Devine, who is accompanied by Mr. Morrison and Ms. Barber.

TESTIMONY OF DONALD J. DEVINE, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY JAMES W. MORRISON, ASSOCIATE DIRECTOR FOR COMPENSATION, AND JEAN M. BARBER, ASSISTANT DIRECTOR FOR FINANCIAL CONTROL AND MANAGEMENT

Mr. DEVINE. Good morning. I appreciate the opportunity to appear this morning to discuss the problem of double coverage of new Federal employees under both social security and the civil service retirement system.

Federal employees first hired after December 31, 1983, and certain other categories of employees hired before that date will be covered under social security as a result of the 1983 Social Security Amendments.

When those amendments were enacted, it was recognized by all involved that the Congress would soon have to establish a new retirement system for those employees in order to supplement the social security benefits they will be earning.

Legislation will not be enacted by January to establish a supplemental retirement system. Therefore, these employees will end up being covered under and paying for both a very expensive existing civil service retirement system and social security.

As a result, they'll have to pay a total of 14 percent of their salaries for expensive, inappropriate, and dual retirement coverage. It's important that the present law be amended to correct potential dual retirement deductions and coverage. It would be inappropriate to provide full, present civil service retirement coverage, even temporarily, to Federal employees who are also covered under social security.

This is particularly true if we remind ourselves that the civil service retirement system is an extraordinarily generous system. The excessive retirement coverage that would be provided by concurrently placing employees under social security and the civil service retirement system can only confuse and demoralize those employees by creating false expectations regarding their future benefits.

The Comptroller General, as you just heard, has identified four possible approaches to the double coverage problem. The administration strongly opposes granting Federal employees a special tax credit for the amount of their retirement contribution. Such a tax credit has no parallel in the treatment of private sector employee retirement contributions. As a matter of equity, we object to preferential tax treatment for Federal employees.

Also, as the Comptroller General points out, this option would unfairly enable employees to receive both a tax credit for their civil service retirement contributions and the refund of those contributions should they leave the Government.

Finally, this alternative would provide immediate relief from double coverage only if the employees adjusted their salary withholdings for income tax.

We also find the second option objectionable. This remedy would provide civil service retirement coverage, but with no employee contributions, and would require the individual's civil service retirement benefits to be offset by his or her entire social security benefit.

Since the supplemental retirement system that may eventually be enacted is likely to differ substantially from the current civil service retirement system, temporary civil service retirement coverage would be of questionable value to employees.

The third option the Comptroller General mentioned, voluntary participation in the civil service retirement system, would be attractive only to employees with high incomes. Civil service retirement coverage would be of only limited value during this transition period.

Double contributions would discourage contribution by lower income employees who are likely to be relatively young and less concerned about preparing for their financial security in retirement.

This brings us to the last of the four possibilities discussed by the Comptroller General, covering post-1983 employees solely under social security until the new supplemental plan is in place.

Excluding the affected employees from civil service retirement coverage and covering them under social security alone would not significantly endanger the financial security of employees in the interim period before establishment of the new supplemental retirement plan.

This is true because, even if they were covered under the civil service retirement system, former employees rehired by the Government after a break in service would have to work for at least 1 year before they would be entitled to an annuity. New employees would have to work at least 5 years before gaining title to an annuity.

New employees would have to work at least 18 months before their spouses would even be entitled to survivor annuities based on the employee's death in service. In any event, when a supplemental plan is created, we would hope and recommend that employees be allowed to purchase retroactive credit for the period preceding enactment of the supplemental plan.

We recognize that this option may create some concern that loss of income would result to the civil service retirement fund. Frank-

ly, we think this concern is misdirected, since any financial problems for the fund would arise only many years in the future.

Nevertheless, we would be willing to consider a requirement that the Government continue to make contributions to the civil service retirement fund during the transition period in the same amount that would have been made had new employees been covered.

Concerns have also been raised that employees might be denied certain benefits, such as disability annuities and survivor annuities for themselves or their dependents which they might otherwise be eligible for during the period while the new plan is being developed.

Here again, we would be willing to consider some arrangement to insure protection for these individuals.

In summary, we believe that exclusion from civil service retirement coverage of Federal employees who will be covered by social security is the most appropriate solution to the double coverage problem.

We are hopeful that a new supplemental retirement system will be enacted soon for those Federal employees who will be covered by social security starting in 1984.

The administration hopes that this new supplemental retirement plan will be in place by 1985. We are eager to assist the Members and committees of Congress with technical support for legislation to reform this important item of public business.

Thank you for the opportunity to discuss this problem, and I will be happy to answer any of your questions.

Senator STEVENS. Thank you. Your complete prepared statement will be made a part of the record.

We're talking about, according to the figures, 385,000 people for a period of not more than 2 years, really. That's our anticipation.

Mr. DEVINE. That would be our expectation if that's the period of time we're talking about.

Senator STEVENS. A comment you made about being able to purchase retroactive credit for the period preceding enacting the supplemental plan—is my memory correct that we had a position from the administration that there would be a willingness to give them credit in the new plan if that plan was put into effect prior to October 1, 1985?

Mr. DEVINE. Our position was that they should be able to purchase retroactive coverage or not, at their option and their expense.

Senator STEVENS. Well, the employer would be contributing to the old plan, and the employee wouldn't be contributing to either plan.

Mr. DEVINE. Yes, sir, that would be the real effect.

Senator STEVENS. If the employee contributes to the old plan, why would the employee have to be able to buy into the new plan?

I thought we had an understanding that if we relieved the new employees of contributing to the old plan, the employer would continue to contribute to the old plan, but the employees would be covered under the new plan if it was adopted, made effective by October 1, 1985, without contributions from the employee. Have you costed that out?

Mr. DEVINE. That depends on what the new plan is, so we can't really cost it out.

As I understood the concern that was raised at the meeting that you talked about, it was a concern about the stability and the financial support the old system got, that we agreed to be responsive to that concern and to contribute the employer's contribution to the old system.

It's our expectation that the new system should start off without any unfunded liability, without any encumbrances—to try to start the new system off without some of the serious problems that we have in the old system so we can begin a new program.

This might involve retroactive payments, both by the Government and the employee, although—

Senator STEVENS. Well, the testimony is some 90 percent plus of similar plans in the private sector are noncontributory by the employee anyway.

Mr. DEVINE. Well, that's certainly one—

Senator STEVENS. It may be that there will be a requirement of a redundant payment by the employer to the new plan. But it would seem to me that the compromise area that we ought to seek is to assure those who are fearful that the old plan might be jeopardized that the employer will continue to make contributions to the old plan for the new employees until the new employees are actually participants in the new plan.

In the meanwhile, we should accept the fact since 90 plus percent of the similar systems in the private sector are noncontributory by their employees, that we should just say right now that they'll not have to contribute in any event and they will be covered into the new plan at the employer's expense if there is an employee contribution required.

And it may be that we'll end up with employee contribution of a small amount. I don't know.

Mr. DEVINE. Well, as you say, this is all dependent on what the shape of the new plan is. It is even conceivable that there wouldn't be an employee contribution under the new plan, depending on what the level of coverage would be.

Senator STEVENS. That was my suggestion. We introduced a bill 2 years ago to accomplish that.

Mr. DEVINE. Well, as I said in the past, I think there are a lot of positive things about your bill. I was mainly concerned about the financing aspects of it.

But that's certainly one alternative.

Senator STEVENS. I'll be willing to bet we're sitting here 2 years from now and we're not more than 5 or 10 percent off of that bill we introduced 2 years ago.

Mr. DEVINE. Maybe.

Senator STEVENS. I don't know that there are any takers.

Well, I appreciate your position, and I think we understand the situation. I do appreciate particularly the willingness to work this out, and I think that that's essential.

It's apparent that the original suggestion that I and my good friend from the House had on the tax credit has run into difficulty in more than one quarter.

So I think we have to find a new approach, and we're going to try and do that and see if we can present it to the Senate here fairly soon.

I do appreciate your appearance.

Mr. DEVINE. Well, thank you very much, Senator, and we, as I said in my statement, are very interested in working with you to do something about this problem, and we do consider it a serious problem in terms of possible recruiting efforts, as the Comptroller General said, especially in the special pay rate area.

So I think it is something we have to do something about.

Senator STEVENS. I appreciate that very much. Thank you.

[The prepared statement of Mr. Devine follows:]

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STATEMENT OF
HONORABLE DONALD J. DEVINE
DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ON

CIVIL SERVICE RETIREMENT COVERAGE FOR FEDERAL EMPLOYEES
WHO WILL BECOME COVERED BY SOCIAL SECURITY AFTER DECEMBER 31, 1983

SEPTEMBER 14, 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR THIS MORNING TO DISCUSS THE PROBLEM OF DOUBLE COVERAGE OF NEW FEDERAL EMPLOYEES UNDER BOTH THE SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT SYSTEMS. I AM ACCOMPANIED BY JAMES MORRISON, OUR ASSOCIATE DIRECTOR FOR COMPENSATION, AND JEAN BARBER, ASSISTANT DIRECTOR FOR FINANCIAL CONTROL AND MANAGEMENT.

FEDERAL EMPLOYEES FIRST HIRED AFTER DECEMBER 31, 1983, AND CERTAIN CATEGORIES OF EMPLOYEES HIRED BY THE GOVERNMENT BEFORE THAT DATE, WILL BE COVERED UNDER SOCIAL SECURITY AS A RESULT OF THE 1983 SOCIAL SECURITY AMENDMENTS. WHEN THOSE AMENDMENTS WERE ENACTED, IT WAS RECOGNIZED BY ALL INVOLVED THAT THE CONGRESS WOULD HAVE TO ESTABLISH A NEW RETIREMENT SYSTEM FOR THOSE EMPLOYEES IN ORDER TO SUPPLEMENT THE SOCIAL SECURITY BENEFITS THAT THEY WILL BE EARNING. LEGISLATION WILL NOT BE ENACTED BY JANUARY TO ESTABLISH A NEW SUPPLEMENTAL RETIREMENT PLAN. THEREFORE, THESE EMPLOYEES WILL END UP BEING COVERED UNDER AND PAYING FOR BOTH THE VERY EXPENSIVE EXISTING CIVIL SERVICE

RETIREMENT SYSTEM AND SOCIAL SECURITY. AS A RESULT, THEY WILL HAVE TO PAY A TOTAL OF 14 PERCENT OF THEIR SALARIES FOR EXPENSIVE, INAPPROPRIATE AND DUAL RETIREMENT COVERAGE.

IT IS IMPORTANT THAT THE PRESENT LAW BE AMENDED TO CORRECT POTENTIAL DUAL RETIREMENT DEDUCTIONS AND COVERAGE. IT WOULD BE INAPPROPRIATE TO PROVIDE FULL, PRESENT CIVIL SERVICE RETIREMENT COVERAGE--EVEN TEMPORARILY--TO FEDERAL EMPLOYEES WHO ARE ALSO COVERED UNDER SOCIAL SECURITY. THIS IS PARTICULARLY TRUE IF WE REMIND OURSELVES THAT THE CIVIL SERVICE RETIREMENT SYSTEM IS AN EXTRAORDINARILY GENEROUS SYSTEM. THE EXCESSIVE RETIREMENT COVERAGE THAT WOULD BE PROVIDED BY CONCURRENTLY PLACING EMPLOYEES UNDER SOCIAL SECURITY AND FULL CIVIL SERVICE RETIREMENT CAN ONLY CONFUSE AND DEMORALIZE THOSE EMPLOYEES BY CREATING FALSE EXPECTATIONS REGARDING THEIR FUTURE BENEFITS.

THE COMPTROLLER GENERAL HAS IDENTIFIED FOUR POSSIBLE APPROACHES TO THE DOUBLE COVERAGE PROBLEM. ONE OPTION IS THAT FEDERAL EMPLOYEES COVERED BY BOTH SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT MIGHT BE GIVEN A TEMPORARY TAX CREDIT FOR THE AMOUNT OF THEIR CIVIL SERVICE RETIREMENT CONTRIBUTIONS. A SECOND OPTION WOULD BE TO COVER EMPLOYEES UNDER CIVIL SERVICE RETIREMENT, BUT RELIEVE THEM OF THE OBLIGATION TO FINANCIALLY CONTRIBUTE TO THE CSRS. THIRD, PARTICIPATION IN THE CIVIL SERVICE RETIREMENT SYSTEM MIGHT BE MADE VOLUNTARY UNTIL A NEW SUPPLEMENTAL RETIREMENT PLAN IS ENACTED. FINALLY, EMPLOYEES COULD BE COVERED SOLELY UNDER SOCIAL SECURITY WHILE A NEW PLAN IS BEING DELIBERATED.

THE ADMINISTRATION STRONGLY OPPOSES GRANTING FEDERAL EMPLOYEES A SPECIAL TAX CREDIT FOR THE AMOUNT OF THEIR RETIREMENT CONTRIBUTIONS. SUCH A TAX CREDIT HAS NO PARALLEL IN THE TREATMENT OF PRIVATE SECTOR EMPLOYEES'

RETIREMENT CONTRIBUTIONS. AS A MATTER OF EQUITY, WE OBJECT TO PREFERENTIAL TAX TREATMENT FOR FEDERAL EMPLOYEES. ALSO, AS THE COMPTROLLER GENERAL POINTS OUT, THIS OPTION WOULD UNFAIRLY ENABLE EMPLOYEES TO RECEIVE BOTH A TAX CREDIT FOR THEIR CIVIL SERVICE RETIREMENT CONTRIBUTIONS AND A REFUND OF THOSE CONTRIBUTIONS, SHOULD THEY LEAVE THE GOVERNMENT. FINALLY, THIS ALTERNATIVE WOULD PROVIDE IMMEDIATE RELIEF FROM DOUBLE COVERAGE ONLY IF EMPLOYEES ADJUSTED THEIR SALARY WITHHOLDINGS FOR INCOME TAX.

WE ALSO FIND THE SECOND OPTION OBJECTIONABLE. THIS REMEDY WOULD PROVIDE CIVIL SERVICE RETIREMENT COVERAGE, BUT WITH NO EMPLOYEE CONTRIBUTION, AND WOULD REQUIRE THE INDIVIDUAL'S CIVIL SERVICE RETIREMENT BENEFITS TO BE OFFSET BY HIS OR HER ENTIRE SOCIAL SECURITY BENEFIT. SINCE THE SUPPLEMENTAL RETIREMENT SYSTEM THAT MAY EVENTUALLY BE ENACTED IS LIKELY TO DIFFER SUBSTANTIALLY FROM THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM, TEMPORARY CIVIL SERVICE RETIREMENT COVERAGE WOULD BE OF QUESTIONABLE VALUE TO NEW EMPLOYEES.

THE THIRD OPTION THE COMPTROLLER GENERAL MENTIONED--VOLUNTARY PARTICIPATION IN THE CIVIL SERVICE RETIREMENT SYSTEM--WOULD BE ATTRACTIVE ONLY TO EMPLOYEES WITH HIGH INCOMES. CIVIL SERVICE RETIREMENT COVERAGE WOULD BE OF ONLY LIMITED VALUE DURING THIS TRANSITION PERIOD. DOUBLE CONTRIBUTIONS WOULD DISCOURAGE PARTICIPATION BY LOWER-INCOME EMPLOYEES, WHO ARE LIKELY TO BE RELATIVELY YOUNG AND LESS CONCERNED ABOUT PREPARING FOR THEIR FINANCIAL SECURITY IN RETIREMENT.

THIS BRINGS US TO THE LAST OF THE FOUR POSSIBILITIES DISCUSSED BY THE COMPTROLLER GENERAL: COVERING POST-1983 EMPLOYEES SOLELY UNDER SOCIAL SECURITY

UNTIL THE NEW SUPPLEMENTAL PLAN IS IN PLACE. EXCLUDING THE AFFECTED EMPLOYEES FROM CIVIL SERVICE RETIREMENT COVERAGE AND COVERING THEM UNDER SOCIAL SECURITY ALONE WOULD NOT SIGNIFICANTLY ENDANGER THEIR FINANCIAL SECURITY IN THE INTERIM PERIOD BEFORE ESTABLISHMENT OF THE NEW SUPPLEMENTAL RETIREMENT PLAN. THIS IS TRUE BECAUSE, EVEN IF THEY WERE COVERED UNDER THE CIVIL SERVICE RETIREMENT SYSTEM, FORMER EMPLOYEES REHIRED BY THE GOVERNMENT AFTER A BREAK IN SERVICE WOULD HAVE TO WORK FOR AT LEAST A YEAR BEFORE THEY WOULD BE ENTITLED TO A NORMAL ANNUITY BASED ON THEIR PREVIOUS SERVICE. NEW EMPLOYEES WOULD HAVE TO WORK FOR AT LEAST 5 YEARS BEFORE GAINING TITLE TO AN ANNUITY. EVEN NEW EMPLOYEES WOULD HAVE TO WORK AT LEAST 18 MONTHS BEFORE THEIR SPOUSES WOULD BE ENTITLED TO SURVIVOR ANNUITIES BASED ON THE EMPLOYEES' DEATH IN SERVICE. IN ANY EVENT, WHEN A SUPPLEMENTAL PLAN IS CREATED, WE WOULD HOPE AND RECOMMEND THAT EMPLOYEES BE ALLOWED TO PURCHASE RETROACTIVE CREDIT FOR THE PERIOD PRECEDING ENACTMENT OF THE SUPPLEMENTAL PLAN.

WE RECOGNIZE THAT THIS OPTION MAY CREATE SOME CONCERN THAT THE LOSS OF INCOME TO THE CIVIL SERVICE RETIREMENT FUND FROM NEW EMPLOYEES WOULD CREATE FINANCIAL PROBLEMS IN THE FUTURE FOR THE FUND. FRANKLY WE THINK THIS CONCERN IS MISDIRECTED, SINCE ANY FINANCIAL PROBLEM FOR THE FUND WOULD ARISE ONLY MANY YEARS IN THE FUTURE. NEVERTHELESS, WE WOULD BE WILLING TO CONSIDER A REQUIREMENT THAT THE GOVERNMENT CONTINUE TO MAKE CONTRIBUTIONS TO THE CIVIL SERVICE RETIREMENT FUND DURING THE TRANSITION PERIOD IN THE SAME AMOUNT IT WOULD HAVE MADE HAD THE NEW EMPLOYEES BEEN COVERED.

CONCERNS HAVE ALSO BEEN RAISED THAT EMPLOYEES MIGHT BE DENIED CERTAIN BENEFITS, SUCH AS DISABILITY ANNUITIES AND SURVIVOR ANNUITIES FOR THEMSELVES OR THEIR DEPENDENTS, WHICH THEY MIGHT OTHERWISE BE ELIGIBLE FOR DURING THE PERIOD WHILE

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THE NEW PLAN IS BEING DEVELOPED. HERE AGAIN, WE WOULD BE WILLING TO CONSIDER SOME ARRANGEMENT TO ENSURE PROTECTION FOR THESE INDIVIDUALS.

IN SUMMARY, WE BELIEVE THAT EXCLUSION FROM CIVIL SERVICE RETIREMENT COVERAGE OF FEDERAL EMPLOYEES WHO WILL BE COVERED BY SOCIAL SECURITY IS THE MOST APPROPRIATE SOLUTION TO THE DOUBLE COVERAGE PROBLEM. WE ARE HOPEFUL THAT A NEW SUPPLEMENTAL RETIREMENT SYSTEM WILL BE ENACTED SOON FOR THOSE FEDERAL EMPLOYEES WHO WILL BE COVERED BY SOCIAL SECURITY STARTING IN 1984. THE ADMINISTRATION HOPES THAT THIS NEW SUPPLEMENTAL RETIREMENT PLAN BE IN PLACE BY 1985. WE ARE EAGER TO ASSIST THE MEMBERS AND COMMITTEES OF CONGRESS WITH TECHNICAL SUPPORT FOR LEGISLATION TO REFORM THIS IMPORTANT ITEM OF PUBLIC BUSINESS.

THANK YOU FOR THE OPPORTUNITY TO DISCUSS THIS PROBLEM. I WILL BE HAPPY TO ANSWER YOUR QUESTIONS.

Senator STEVENS. It's my understanding that Jerry Klepner's father has had a personal problem and he has asked that we call Kim Parker to present this statement that he has for today.

GEORGE GOULD, CHAIRMAN, LEGISLATIVE COMMITTEE, FUND FOR ASSURING AN INDEPENDENT RETIREMENT [FAIR], ACCOMPANIED BY KIMBERLY C. PARKER, SECRETARY, FAIR

Ms. PARKER. Mr. Chairman, George is going to present the statement.

Senator STEVENS. Fine, thank you.

Mr. GOULD. Good morning, Mr. Chairman.

Senator STEVENS. Good morning.

Mr. GOULD. On behalf of the president and chairman of the board, Vincent Sombrotto, we appear today as representatives of FAIR.

Recently, the 26 member organizations voted unanimously to continue FAIR as a voluntary coalition of unions and employee organizations concerned with legislative issues affecting all active and retired Federal and postal employees.

At its June 7, 1983, board of directors meeting, new officers were elected. Vincent Sombrotto, chairman and president; Kimberly C. Parker, secretary; Jerry Klepner, treasurer; and I was again selected as chairman of the FAIR legislative committee.

With me this morning is Kimberly Parker, secretary of FAIR.

We're here today at your invitation to discuss FAIR's position on the situation facing new Federal and postal employees hired on or after January 1, 1984.

Under the present law they will be required to pay 7 percent into the civil service retirement, and an additional 7 percent into social security.

As usual, Mr. Chairman, it is a pleasure to appear before you today. We appreciate the interest you have always shown and continue to show in the welfare of all Government employees and retirees.

We realize the chairman's time constraint. Therefore, our statement is as short as possible.

With your permission, if necessary, we request the opportunity to submit additional testimony for the record.

Senator STEVENS. Very fine, thank you.

Let me state that now, I do intend to try and move this. We're going to have a meeting of the full committee next week, and I would like to have this bill on that agenda. So I would like to have any additional materials that are going to be submitted by the witnesses to be delivered to the committee by Monday, close of business.

Mr. GOULD. We will be glad to comply.

Senator STEVENS. Thank you.

Mr. GOULD. Mr. Chairman, as a coalition representing Federal and postal employees, we anticipated problems, as you did, that could arise if social security coverage was extended to new Government employees.

During the debate on the social security bill this year, on many occasions we took the opportunity to express our concerns that there would be a dichotomy between new and present employees. That situation becomes a reality on January 1, 1984.

If a solution can be developed to resolve this dichotomy, we, as a coalition of 26 Federal and postal unions and employee organizations, believe that any such solution must meet certain tests to be viable, workable, and acceptable.

And, if a solution is indeed going to be enacted into law, it is essential that it be agreed to as much as possible by all interested parties.

Mr. Chairman, there are few, if any, Members of Congress more knowledgeable in the legislative process than you. In dealing with the issues as sensitive as this one, it necessitates a consensus.

To reach that consensus it is necessary to thoroughly communicate among the involved parties. That is why we appreciate these hearings which gives us an opportunity to work with you and your staff on this issue.

Given that opportunity, we would like to discuss briefly two tests that we feel must be met if a solution is to be achieved. These tests are consistent with FAIR's position since its inception. Any variation from this runs contrary to that historical perspective.

First, contributory funding for the Federal retirement trust fund must continue. It is essential that there be no interruption and no reduction in those contribution levels. Continuing contributions insure that all options remain available and insure the financial solvency and integrity of the Federal retirement trust funds.

Second, there must be equity between new employees and present employees. Inequities in contribution level could result in personnel problems, declining morale, and drops in productivity.

To have two employees at the same pay level doing the same job, yet one contributing 7 percent toward civil service retirement, and

the other contributing 7 percent toward civil service retirement and 7 percent to social security is inherently inequitable.

For the government to work effectively, it must be able to attract and retain qualified employees. As employee and retiree organizations, we are concerned with the welfare of current employees and retirees whom we represent.

As organizations dealing with the business of Government, we are also concerned that post-1983 hires be treated fairly, and that there be no fragmentation of the Federal workforce.

Mr. Chairman, we welcome the opportunity to work with you and your staff to develop a solution to the dichotomy between new and current Federal and postal employees.

We will be happy to answer any questions that you might have. Senator STEVENS. Thank you very much.

I think we're in agreement, and we will be pleased to consult with you as we prepare the draft.

Mr. GOULD. Thank you, Mr. Chairman.

Ms. PARKER. Thank you, Mr. Chairman.

Senator STEVENS. We should have the draft by the middle of next week, I hope.

Thank you very much. My best to Jerry.

Next is Mr. Jerry Shaw, chairman of the Federal Employees Coordinating Committee, accompanied by John W. Gregorits, Professional Engineers in Government; Robert Beers, American Foreign Service Association; and Ronald Stern, Patent Office Professional Association.

TESTIMONY OF G. JERRY SHAW, CHAIRMAN, FEDERAL EMPLOYEES COORDINATING COMMITTEE, ACCOMPANIED BY JOHN W. GREGORITS, PROFESSIONAL ENGINEERS IN GOVERNMENT; ROBERT BEERS, AMERICAN FOREIGN SERVICE ASSOCIATION; AND RONALD J. STERN, PRESIDENT, PATENT OFFICE PROFESSIONAL ASSOCIATION

Mr. SHAW. Thank you, Mr. Chairman, it's a pleasure to be able to appear once again before you and your subcommittee as we attempt to deal with some of the problems that have come up.

I would like to submit the statement of the Federal Employees Coordinating Committee for the record, and just make a short summary, and then each organization would like to say a few words about their position and the people that they represent, if that is satisfactory.

Senator STEVENS. Thank you. We will print your statement. I have read it. We will put it in full in the record.

Mr. SHAW. Mr. Chairman, I think all of us knew that this day was going to come, and it has come. We all are faced with the dilemma of new employees versus current employees and of trying to maintain the integrity of the current Federal retirement system.

We are faced with, as employees and employee representatives, a continuous barrage of publicity about how fat and happy the Federal employee retirement system currently is and how it is continuously on the verge of going broke at the same time.

We have examined in some detail the alternatives presented by the General Accounting Office, and frankly, we are not enamored

with any of them. But, recognizing that solutions must be found, we favor the social security offset solution.

We think that is the fairest to the new employees. We think it is fairest to the current employees of the three or four proposals that were made.

We do think that any plan that is adopted must have the following elements: First, that the new employees after January 1, 1984, must be reimbursed, or made whole, for any direct financial penalties of dual coverage, in timely fashion. Part of the problem with the tax credit offset was that they may not be able to get their money back for a year.

That's not fair and we don't think that they should be forced to make any financial penalty.

Second, we think that the financial integrity of the existing Federal retirement benefit program must be insured by Congress, and the lack of new employee contributions at whatever level not become a new excuse for OPM to unleash a further publicity barrage about how the Federal retirement program is breaking the Government.

We have had our fill of being accused as current Federal employees and current retirees of breaking the Federal Government and being responsible for a large part of the deficit of the Government based on a retirement program that has been in existence and healthy for a long, long time now.

Senator STEVENS. I find it interesting that it's those who have been at the highest levels of Government for a long period of their lives that seem to be attacking the system the most. Primarily ex-Members of the House.

Mr. SHAW. It's an interesting observation, Mr. Chairman.

Third, you have heard from us before on your proposed bill, Mr. Chairman, and our beliefs on that. We have been in contact with Mr. Cowen and others of the subcommittee staff and Mr. Schley about our views on that. We think that it is the basis for any new system.

But we believe that any new retirement system for employees must be a fair and equitable one. Finally, new employees must be made aware of the temporary retirement system that is going to be in effect for the short period of time to accommodate their entry into the Government.

Now, by that, we mean we have gone through a period of great uncertainty and turmoil. If new employees are going to be faced with a new retirement system 2 years after they come into the Government, and/or any possibility of having to contribute retroactively to get coverage, such as was proposed or talked about in Dr. Devine's testimony, a very simple language document is going to have to be provided to those employees so they understand what is happening to them.

Senator STEVENS. I just don't see how we can recommend that they be required to contribute retroactively to something that they don't know about now. And we can cross that bridge when we come to it on a voluntary basis, if the employee contributions are required.

But certainly I would oppose putting into law now that they can get into the system for the time between now and the new system

coming into effect only on the basis of contributions, or payment for retroactive coverage.

Mr. SHAW. We appreciate that.

Senator STEVENS. On the contrary, I think we ought to make it very clear they will be covered. I think the cost, really, is de minimus in terms of the overall morale of the Government as far as the new employees is concerned.

I think they should be assured now that they will be covered for the time that they serve. That will be in our bill.

Mr. SHAW. I appreciate that, Mr. Chairman. I appreciate that statement. I know all of us here today do.

The point is I think, again, that there is going to be so much uncertainty for new employees from January 1984 on, as there is for current employees. OPM should be required by Congress to give a clear and simple nonlegal-type statement to all new employees as to what they are coming into when they come into Government, and what their retirement options are going to be to the extent that they're predictable so that employees are not surprised 2 years down the road by what they've walked into.

Mr. Chairman, I really appreciate the opportunity to be here.

I would like Mr. Gregorits from the Professional Engineers and then Mr. Beers and then Mr. Stern to make very short 1-minute statements.

Mr. GREGORITS. Mr. Chairman, in the interest of time, and with your permission, I would like to have my statement recorded in the record, and I would just like to make one or two small points.

In the era of ever increasing technological change, it is imperative that the Federal Government be capable of recruiting, hiring, and retaining quality engineering talent to execute the business of Government.

I stress the word "quality." We are not talking here about filling vacancies which our personnel friends can do easily. We're talking about quality talent. And in the engineering profession, with all the changes that are taking place in our lifetimes, we must attract and retain that talent.

Prior to the enactment of Public Law 98-21, it was difficult enough to hire and retain quality engineering talent in the Federal Government. The current situation makes it almost impossible.

We've reviewed the position of the GAO report, and feel that option three is the least innocuous of the choices that are placed before us. We recommend that if those are our only choices, that option three be the one chosen.

I would be happy to answer any questions you have.

Senator STEVENS. Thank you. Your statement will be made part of the record.

Mr. Beers?

Mr. BEERS. Thank you, Mr. Chairman.

We do not have any prepared statement. We are members, the American Foreign Service Association, of both the FAIR coalition and the Federal Employees Coordinating Committee, and so we subscribe to the position taken by those two groups.

The one point that I come here to make today is that I would like to point out that every reference so far in these hearings is to the civil service retirement fund.

I'm sure you're aware, Mr. Chairman, as others are, that the Foreign Service is a separate personnel system with its own retirement trust fund. As far as this issue is concerned, we share the same concerns as the civil service people. But as these measures to overhaul and revise the retirement system of the Federal service proceed, we would like very much to stress that our personnel system does have very special and unusual requirements.

That's my purpose in appearing here today.

Senator STEVENS. Thank you, Mr. Beers. We are familiar with that, and we want to assure you that we will be cognizant of it not only as we try to protect the existing funds, but also a new system for the whole Government.

Mr. Stern?

Mr. STERN. Mr. Chairman, the Patent Office Professional Association is the exclusive bargaining agent of all nonmanagerial patent professionals at the U.S. Patent and Trademark Office.

The vast majority of our members are engineers engaged in the examination of patent applications. Our association is a charter member of the Federal Employees Coordinating Committee.

It has been previously testified that the scheduled 14-percent retirement program deductions for new hires will exasperate an already serious recruitment problem.

Let me try to define the magnitude of the problem in the Patent Office. Our agency is currently at the midpoint of a major expansion, with about 400 new engineers to be hired in the next 2 fiscal years.

Data from the College Placement Council and the Pennsylvania State University show that most engineers received job offers in excess of \$25,000 per annum this past school year. The Patent and Trademark Office is only authorized special pay rates at the GS-5 and GS-7 entry levels of \$16,706 and \$19,639 respectively.

In the past, the Government's reputation for a generous retirement program at least partially overcame such huge salary gaps. When folklore is replaced by fact, when the uncertainty of retirement benefits, coupled with the 14-percent deductions that are further subject to the income tax, becomes known, how will we attract quality graduates?

Will we be relegated to hiring only those who cannot get any other job?

Retention resentment must also be considered. New employees are recruited from all parts of the country. They must bear the costs of moving and the expenses of starting a new household.

When unanticipated deductions shrink advertised salaries to much smaller take home amounts, the initial shock may turn to bitterness, especially when the new hires discover that only slightly more senior employees are not required to make the same sacrifice.

A roughly comparable situation was presented last year when engineer patent examiners were denied increases in their special pay rates even though other employees were granted a 4-percent increase.

The new employees angrily demanded that our association seek a judicial remedy which we did. I will not be surprised if the Government's cost of defending this still pending lawsuit, together with

the cost of misdirecting productive energies, will far exceed the value of the 4-percent salary increase.

Our association strongly supports the recommendations of the Federal Employees Coordinating Committee. We believe the fairest and least disruptive interim solution is to provide the new employees with a retirement system that is as comparable as possible to that enjoyed by current employees.

Of the alternatives presented, the social security offset approach comes closest to this ideal.

I would like to make one additional point. We also believe that the new hires should be making the same contributions as current employees. Thus, new hires should, in addition to their payments to social security, pay the difference between 8.3 percent, which is the contribution of current employees, and the social security payment into the civil service retirement fund.

One must remember that current employees are now paying 7 percent into the civil service retirement fund, and 1.3 percent as the medicare tax.

The total is 8.3 percent. The difference between 8.3 percent and the payments they would be making into the social security system, we believe, ought to go into the civil service retirement fund to provide equity.

Thank you very much for giving us this opportunity to present our views.

Senator STEVENS. Well, if there is going to be equity, then they wouldn't be able to get back that contribution if they withdrew from the Government, right? No one can get back the medicare fund when they retire from Government.

Mr. STERN. That's true, and if an employee withdrew in the first 5 years, he would be able to get it back. But if he withdrew later, he wouldn't get it back.

Senator STEVENS. If it goes into the retirement fund under the existing law he would get it back. But if people in the Government now, if they withdrew, they would not get it back.

Mr. STERN. They would not get the 1.3-percent medicare tax. But they would get back the contribution to the civil service retirement fund.

Senator STEVENS. I want to make sure we understand. You raised a good point. I want to make sure we understand it, that the contribution is going to go into the civil service retirement fund, it's going to go in there period. They won't be able to get it back.

Mr. STERN. Good point.

Senator STEVENS. We would have trouble with that, incidentally, because it would be—it is required to be a payment into the medicare fund. We would be changing that, if I understand you.

Mr. STERN. My understanding is that the new employees would be paying into social security, including the 1.3-percent medicare tax. However, that total contribution is less than the amount that current employees are required to pay.

Senator STEVENS. You have a good point. We'll explore that. I just want to warn all concerned that we're getting into an area of uncertainty and confusion. I think that we've got to keep this—my first wife used to give me that card, you know, when I got up to make a speech. It said KISS, keep it simple, stupid. [Laughter.]

We've really got to keep this fairly simple so that the explanation that you asked for, Mr. Shaw, is capable of being delivered in a clear and precise and totally understandable way.

But we will explore that, Mr. Stern, and try to see if we can address it in the draft.

Mr. STERN. Thank you, Mr. Chairman.

Senator STEVENS. It would be my hope that we will have a bill prepared by the middle of next week and we'll try to see if we can get it ready to go to the full committee as soon as possible.

I would urge those of you to consult with the staff as soon as we can get any further suggestions coming. I personally favor a very clean statement that the employer will continue to make contributions; the employees will not make contributions except for this question Mr. Stern has raised; that there will be a coverage in the new system if it becomes effective by October 1, 1985.

We cannot legislate carrying beyond that in my opinion. Until we define what that system is, we should not grant that coverage into a fund that may require contributions.

I think that we can get an understanding. Incidentally, I also believe that we ought to make certain that we do cover, in terms of the disability and the survivor benefit provisions. And the cost of that is very small. It ought to be covered so there is no uncertainty about that either.

It would be my hope that we would agree that the goal is to get a bill prepared so that it can be introduced before the close of this Congress so that everyone will have a chance to study it, and that we set a goal of enacting a bill in the first session of the next Congress.

Mr. SHAW. Thank you, Mr. Chairman. We appreciate the opportunity to be here.

Senator STEVENS. I think it would be unconscionable for the Congress to maintain the position that these new people must pay this premium because of the action taken to resolve the social security problem.

We tried to get it taken care of at that time. It was misunderstood. I'm hopeful that we can develop the consensus among all of those who seek the solution so that we will not have a disagreement when we get to the floor.

You know, this is a Benjamin Franklin situation. We either agree, or we will hang separately.

I'll look forward to any further suggestions you have, gentlemen. Thank you very much.

[The prepared statements of Messrs. Shaw and Gregorits follow:]

Federal Employees Coordinating Committee

*Association of Technical and
Supervisory Professionals*

*Classification and
Compensation Society*

*Professional Managers
Association*

Federal Bar Association

*Federal Executives and
Professionals Association*

*Professional Engineers
in Government of NSPE*

*American Foreign Service
Association*

*National Association of
Federal Veterinarians*

*Patent Office Professionals
Association*

Federally Employed Women

STATEMENT OF

G. JERRY SHAW

CHAIRMAN

FEDERAL EMPLOYEES COORDINATING COMMITTEE

TO THE

SUBCOMMITTEE ON CIVIL SERVICE,

POST OFFICE, AND GENERAL SERVICES

OF THE

COMMITTEE ON GOVERNMENT AFFAIRS

U.S. SENATE

HEARINGS ON AN INTERIM RETIREMENT PROGRAM

FOR FEDERAL EMPLOYEES

SEPTEMBER 14, 1983

1100 17th St., N.W. ■ Washington, D.C. 20036 ■ Telephone: 463-8400

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to present the views of the Federal Employees Coordinating Committee and its member organizations. The FECC represents approximately a dozen federal employee organizations representing a wide range of government workers. Many of our members work in departments and agencies particularly concerned about the effects of the recently enacted Social Security Amendments. The temporary dual coverage by Social Security and existing federal retirement pension systems, mandated by the PL-98-21 will have a direct dollars and cents effect, as well as an indirect effect on our membership.

Adverse Effects of Social Security Amendments

Should Congress fail to enact legislation to eliminate the built-in disadvantages and inequities of the Social Security Amendments on federal employees, the consequences will be severe. Recruitment and retention problems, already endemic in many federal agencies, will become even more serious, as pay and benefits to new employees are affected. Simultaneously the federal government's comparative disadvantages in recruitment becomes more acute with the economic recovery. Private employers will not only be increasing their hiring, but offering higher pay and benefits.

Moreover, the effects of the Social Security Amendments are not restricted to newly hired federal employees. Difficulties in recruiting qualified new employees, and increased employee

attrition have direct effects on agency workloads, efficiency and morale. The ability of federal managers to carry out their assigned responsibilities will be adversely effected as will their job satisfaction and their commitment to a civil service career.

These problems faced by existing federal employees are compounded by the knowledge that the future of the pension programs to which they themselves have contributed during their federal careers is itself in doubt. Federal employee confidence in existing federal pension and benefit programs is already at an all time low. The adoption of the Social Security Amendments only served to futher erode this confidence at a time when federal employees are already witnessing a mass exodus of their colleagues to the private sector.

Lastly, the Social Security Amendments will have direct budgetary implications. At a time when all Americans are concerned about the cost of government, greater difficulties in recruiting and retaining workers with specialized or highly technical abilities has already necessitated the payment of special pay rates to many existing federal employees, many of which I might add, are members of the FECC. The exacerbation of recruitment and retention problems due to dual coverage may require payment of higher special pay rates to greater numbers of individuals.

Legislative Objectives

These and similar effects of the Social Security Amendments suggest three distinct objectives faced by Congress in the near term.

First, and most important, a retirement system for new employees must be designed and implemented without delay. The longer this is postponed the more serious the problems will become. No temporary stopgap measure designed to alleviate current problems will satisfy this need.

Second, a solution must be found to the immediate problem caused by dual coverage that will eliminate the basic inequity that would be suffered by new employees forced to contribute to two pension systems. These new employees can expect to contribute some half a billion dollars to the Civil Service Retirement System and other systems while obtaining something less than three and a half million in benefits during the same period. To quote the recent General Accounting Office study of the problem,

"Requiring to temporarily contribute to both systems appears to be an inequity. The dual contribution will reduce employee's take home pay if the situation is not remedied by Congress."

Third, an effort must be made to minimize the general damage to the federal government, its effectiveness, its efficient operation, and the morale of its employees. The retention and recruitment problems must be addressed head-on.

Alternatives

Several legislative alternatives have been proposed to address these last two legislative objectives: eliminating the inequity and minimizing the damage done by the Social Security Amendments. The three most widely discussed alternatives have been (1) to exclude new employees from Civil Service Retirement System coverage, either universally, or on a voluntary basis; (2) to institute some form of tax credit that would reimburse new employees for the increased financial burden of dual coverage; or (3) alternatively to develop a Social Security offset formula while providing temporary CSRS coverage without employee contributions.

None of these three alternatives, nor any other with which I am familiar, are entirely satisfactory.

The first alternative, to exclude new employees from coverage under the current federal pension program, would of course eliminate the direct financial inequity to be borne by new employees. However, this alternative also eliminates the potential personnel recruitment benefits of inclusion under such programs. Also, a simple exclusion of new employees from the current federal retirement system would further strain the financially strapped federal program. New employees who otherwise would have been able to take advantage of Civil Service Retirement System benefits would be substantially penalized. Creating a different kind of inequity.

Like the CSRS exclusion alternative, tax credit arrangements, which would reimburse new employees for their contributions to federal retirement benefit programs, would also eliminate the direct financial inequities of dual coverage. Such an alternative would also benefit the financially strapped existing federal retirement benefit programs. However, for many new employees, earning entry-level wages, the possible delay in reimbursement pointed out in the GAO report could be an important consideration in joining the federal government. Though the federal government would be alleviated of any substantial administrative burden, it would do so at the expense of new employees. These disadvantages will doubtlessly be reflected in recruitment and retention.

The last alternative, involving the Social Security offset, has the fewest disadvantages. This alternative would provide new federal employees coverage under both the Civil Service and Social Security Systems, while at the same time eliminating the direct financial impact on the employee. Moreover, this arrangement would provide comparable disability and death benefits coverage for the new employees while at the same time partially protecting the financial health of the existing federal retirement programs through agency-only contributions. Nonetheless, the Social Security offset arrangement will result in administrative burden which would be avoided under the tax credit scheme.

Obviously, none of the alternatives available is completely satisfactory, underscoring the need for Congress to address the more important problem of overhauling existing retirement benefit programs.

Of the alternatives available, however, the FECC prefers the Social Security offset approach.

Recommendations

Whichever alternative is agreed to by the Congress, the FECC feels such a plan should contain five elements:

1. New employees should be reimbursed for any direct financial penalties of dual coverage in a timely fashion.
2. The financial integrity of existing federal retirement benefit programs must be insured by Congress, and the lack of new employee contributions not become a new excuse for OPM to unleash a further publicity barrage about how the Federal retirement program is "breaking" the Government.
3. Any new retirement system for new employees must be a fair and equitable one.
4. Lastly, new employees should be completely aware of the temporary arrangements made to accommodate their entry into the U.S. government. The Office of Personnel Management should be instructed by the Congress to inform new employees both of the temporary nature of the retirement system under which they enter, and the specific benefits to which they would be entitled pending Congress's work on a new Civil Service System.

Thank you very much.

STATEMENT OF MR. JOHN W. GREGORITS, P.E. TO
THE UNITED STATES SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE AND GENERAL SERVICES

--- WEDNESDAY, SEPTEMBER 14, 1983 ---

HEARING ON OPTIONS TO IMPLEMENT AN INTERIM
RETIREMENT SYSTEM FOR CIVIL SERVICE EMPLOYEES
WHO WILL BE COVERED BY SOCIAL SECURITY

Good Morning. My name is John Gregorits and I am the Chairman of the Professional Engineers in Government Practice Division of the National Society of Professional Engineers. I have recently served as the Chairman of the Special Task Force on Engineering Recruitment for the Federal Service. In these capacities, and as a civil servant of more than 25 years of service, I am pleased to be able to present to you some specific comments which I believe will bear on the subject of concern to this subcommittee.

In this era of ever increasingly rapid technological change, it is imperative that the Federal Government be capable of recruiting, hiring and retaining quality engineering talent to execute the business of government and provide accurate technological advice to its less technically trained arms. This is especially true where decisions affecting the public well being are made daily.

Diverse segments of the Federal Government served on The Special Task Force on Engineering Recruitment. Although their report is currently undergoing final approval some of the findings are reportable now. We identified that in recruiting, hiring and retaining quality engineering talent in the Federal Service, there are seven distinct areas of concern:

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1. Image
2. Entry level recruitment
3. Retention at the journeyman level
4. Communication
5. Mobility
6. Engineering Technologists
7. Compensation/salary

Today, I would like to concentrate on Entry level recruitment and Retention at the journeyman level. In my opinion, information on these areas could bear directly on your upcoming decisions.

You are all aware of the increasing body of literature concerning the emergence of "new values" in American society. This means that we are dealing with two distinct groups of individuals - the recent graduate, raised in an affluent society and the journeyman engineer, a more traditional individual. The young engineer, or for that matter any member of the "baby boom" is looking for an interesting, well-designed job to develop a broad, marketable skill base and short-term capital to cover mortgage and car payments. Retirement is not the primary concern of this group. They assume that the federal retirement system will be comparable to that provided in the private sector.

On the other hand, the mature engineer has a stable career. Since he is more concerned with providing for himself and his family, he will consider the retirement aspect of his compensation of greater importance.

In either case, paying more for a retirement, especially one whose benefits are not defined and clearly left to the uncertain legislative process, would result in making it tantamount to impossible to attract the quality engineering talent needed.

Indeed, prior to the economic downturn and before the passage of Public Law 98-21, which brought civil service employees under social security, even with the Special Pay Rates, it was most difficult to fill vacancies. Attempts to compensate for this difficulty have included training designed to qualify mathematicians, physicists and chemists to fill engineering positions and the re-engineering of job descriptions so these professionals could qualify. The shortage of engineering positions in the private sector, has changed this picture only briefly, but, with the economy changing and Public Law 98-12, the task of the technical federal manager to attract and retain engineering talent becomes nearly impossible.

Public Law 98-12 is here and we must make the best of a difficult situation. In my opinion, given that the prevailing conditions cannot be changed, Option 3 as proposed in the GAO report offers a workable alternative for the interim. Recruitment and retention will still be extremely difficult, but, at least possible.

In addition, we must assure that "the interim" does not become "the permanent".

Senator STEVENS. The subcommittee will now adjourn.
[Whereupon, at 11:31 a.m., the subcommittee adjourned, subject to reconvene at the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Affiliated with AFL-CIO

1325 Massachusetts Avenue, N.W., Washington, D. C. 20005



STATEMENT OF

KENNETH T. BLAYLOCK
NATIONAL PRESIDENT

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
(AFL-CIO)

SUBMITTED TO THE

SUBCOMMITTEE ON CIVIL SERVICE,
POST OFFICE AND GENERAL SERVICES

COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

DUAL RETIREMENT CONTRIBUTIONS

SEPTEMBER 14, 1983

(45)

The American Federation of Government Employees (AFGE), AFL-CIO, is pleased to submit this statement to the Senate Committee on Government Affairs, Subcommittee on Civil Service, Post Office, and General Services. AFGE represents over 700,000 employees throughout the Executive Branch of government.

We are pleased to see this Committee address the rather absurd situation brought about by the passage of H.R. 1900, the Social Security Reform Bill. On January 1, 1984, new federal employees will be (barring any change in current law) contributing 14% for retirement purposes -- 7% to the Civil Service Retirement System, 5.7% to Social Security and 1.3% to Medicare. (For 1984, .3% of the Social Security contribution would be allowed as a tax credit for income tax purposes.) The new employees will be contributing this 14% of their salary without having any clear idea what their ultimate retirement benefits will be since there currently is no supplemental retirement plan in place for these employees.

Below we illustrate the size of the annual retirement contribution, at current pay, for each of the GS levels, 1 through 12:

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GS LEVEL	STEP	ANNUAL PAY	ANNUAL RETIREMENT CONTRIBUTION
1	5	\$ 9,831	\$1,376
2	5	10,703	1,498
3	5	12,065	1,689
4	5	13,541	1,896
5	5	15,153	2,121
6	5	16,889	2,364
7	5	18,767	2,627
8	5	20,783	2,910
9	5	22,956	3,214
10	5	25,283	3,539
11	5	27,776	3,889
12	5	31,332	4,386

Of course, one would have to deduct health insurance, federal, state, and local income taxes before one could estimate the take home pay for these federal workers.

As the General Accounting Office stresses in its report and the above table indicates, the ability of the federal government to recruit and retain quality employees will be severely reduced given this level of retirement contribution. We cannot but add at this point that the pay caps, retirement benefit reductions, increases in the health premiums, deterioration of working conditions, and constant belittlement of the worth of federal employees has also affected the governments' ability to attract top notch workers. These retirement contributions will make

worse the already existing entry level pay gaps between the private sector and the federal sector. (See attachment.)

The Senators are well aware that this union opposed bringing new federal employees under Social Security. Our opposition was shared by virtually all federal employees. However we were not able to prevail on this issue.

When it became clear that new employees were to be brought under Social Security, we supported and were happy to see the Senate pass the amendment offered by Senator Russell Long (D-LA) to H.R. 1900 which would have delayed coverage of new federal employees until a supplemental retirement system was in place. Unfortunately, the Senate was not able to prevail in Conference with the House on the Long admendment. If the Long admendment had prevailed we would not be facing the current abysmal situation.

Although we recognize the political difficulties in passing a provision similar to the Long admendment, we still believe that removing new employees from Social Security until a supplemental retirement system is in place is the best answer to the current problems.

Without this favored solution, it becomes very difficult to find an appropriate solution to the current situation. This difficulty stems from the fact that we are trying to remedy the contribution aspect of the retirement system for new employees without having any clear idea what the benefit structure will eventually be. The GAO Report states, "... we assumed the new

supplemental retirement system will retroactively cover all periods of service by new employees subsequent to January 1, 1984." New employees, considering the track record of promises made to federal employees, may very well wonder whether this "assumption" is valid.

THE PROPOSALS EXAMINED BY GAO

The criteria offered by GAO for the four proposals it considers is "alternatives which would alleviate adverse impacts on recruiting and retention". We believe that there is another consideration which should be taken into account in attempting to alleviate the dual contribution problem -- namely that equality between current and future employees be maintained. When the supplemental retirement program is under consideration AFGE will be guided by the following principle:

The supplemental system (when combined with Social Security) should provide the same level of benefits as the current system with the same level of contributions from the employee.

In light of this principle, AFGE cannot endorse any of the retirement contribution proposals as currently fashioned by GAO.

The first proposal, to provide new employees with a tax credit for their contribution to the Civil Service Retirement System, would place new hires in a relatively privileged position when compared to current employees. For example consider the hypothetical case of two employees (one current employee and one newly hired 1984 employee) both earning \$40,000

and paying 30% in federal income tax. In this case under this alternative, the current employee would pay \$2,800 to the Civil Service Retirement System, \$495 for Medicare, and \$12,000 in federal income tax for a take home pay of \$24,705. The new employee on the other hand would pay \$2,800 to the Civil Service Retirement System, \$2,172 to Social Security, \$495 for Medicare, and \$9200 in federal income tax (taking into account the tax credit for the Civil Service Retirement System contribution). His take-home pay would be \$25,333 -- a full \$628 more than the current employee. In addition, new employees could also receive a refund of their Civil Service Retirement contribution if they leave government service.

The second option of no Civil Service Retirement coverage, thus no employee or employer contribution to the Civil Service Retirement System, also is flawed. The new employee would have Social Security coverage but would have no defined stake in a supplementary retirement system. The resulting increased insecurity would, again, have adverse impact in the government's recruitment ability. There would also be fairness problems in disability and death situations. It would also have an adverse impact on the finances of the Civil Service Retirement Fund.

The fourth option, of voluntary participation in the Civil Service Retirement System, is merely allowing employees to choose between the current situation which is, as these hearings attest, recognized to be unsatisfactory and the second GAO option which, as we have already argued, is also unsatisfactory. An option to

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choose between two unsatisfactory situations is itself obviously --unsatisfactory.

Option three, requiring agency contributions but no employee contributions, also has some problems. By not requiring any contribution from new employees, it fails to show new employees that they have a stake in a supplementary retirement system. If they are guaranteed credit for the years of service in this interim period, it is not equitable to current employees who will be contributing at a higher rate than these new workers or future employees who may be required to contribute to the supplemental retirement plan. It does have the advantage of providing increased coverage to new employees in situations of disability or death. It also aids in the financial status of the Civil Service Retirement Fund, compared to GAO option two, by providing for agency contributions.

AFGE RECOMMENDATIONS

If it is considered impossible to delay Social Security coverage of new employees until a supplemental retirement system is in place, then AFGE would recommend that GAO option three be modified to provide for a 1.3% employee contribution to the Civil Service Retirement System because:

It would achieve a parity of contribution between new and current employees for retirement purposes.

It would assure new employees that they would have full

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credit of their years of service toward a supplemental retirement plan in this interim period.

It would provide the Civil Service Retirement Fund with some additional funding.

It would provide new employees with coverage for disability and death benefits comparable with pre-1984 federal employees.

Provisions should, also, be made for the refund or additional contribution in the case where the supplemental system requires a contribution rate that is different than 1.3%. There already exists a precedent for this approach in the way Congress has chosen to handle the post-1956 military service for Civil Service Retirement. We are not persuaded by the protests made by GAO in regard to the administrative complexity of such an approach. We fully recognize that there are some potential administrative problems in this approach but we strongly believe that such problems are secondary to the principles of equity and fairness to federal employees, both current and potential.

We want to thank the Chairman and the Committee for examining this situation and look forward to working with the Committee and its staff to resolve the problem.

ATTACHMENT

Based on March 31, 1983 data supplied by OPM, the relative differences in entry level pay between similarly matched jobs in the private sector vis the federal sector has become alarming. For example:

ENTRY LEVEL DIFFERENCES IN PAY			
<u>OCCUPATION</u>	<u>PRIVATE SALARY</u>	<u>FEDERAL SALARY</u>	<u>% DIFFERENCE</u>
ACCOUNTANTS	\$19,519	\$14,098	38.45%
ATTORNEYS	28,119	20,591	36.55
CHEMISTS	21,365	13,628	56.77
ENGINEERS	25,556	17,431	46.61

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NASCOE
National Association of ASCS County Office Employees

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September 9, 1983

The Honorable Ted Stevens
Chairman, Sub-Committee on Civil Service,
Post Office and General Services
United States Senate
Washington, D.C.

Dear Senator Stevens:

The members of the National Association of ASCS County office Employees (NASCOE) are concerned about the situation that will be faced by new hires after January 1, 1984 and, collaterally, about the continued viability of the present Civil Service Retirement System. Therefore, NASCOE appreciates your endeavors to find an acceptable alternative to alleviate the plight of new hires until a supplemental plan is in place.

The National Association ASCS County Office Employees (NASCOE) is an association whose purpose it is to promote the welfare of Association members. Its membership consists of those employees hired to work in the U.S. Department of Agriculture's Agriculture Stabilization and Conservation Service County Offices. There are about 10,000 such employees whose jobs are to provide services to the farmers of our nation participating in the programs of ASCS.

County Office employees are not classified Federal employees, but they are paid from Federal funds; funds appropriated under the U.S. Department of Agriculture's budget and allocated to ASCS. Their entitlement to participate in the Civil Service Retirement system, the Federal Employees Health Benefits program, and other programs was made possible by various legislative enactments.

The issue of pursuing alternative measures for those employees hired after January 1, 1983 was thoroughly discussed at NASCOE's Annual meeting held August 17 - 20 in Rapid City, South Dakota. It was agreed by the members that some alleviating measure should be enacted to cover the interim period between January 1, 1984 and the time when a supplemental plan for new hires is in place. It was also agreed that every effort should be made to provide equitable treatment for both new hires and incumbents. And, most importantly, no action should be taken which does not provide for full contributions/funding to the present Civil Service Retirement System.

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Therefore, the Delegate Body of NASCOE at its 1983 annual meeting passed a resolution which would support an alternative measure that would require:

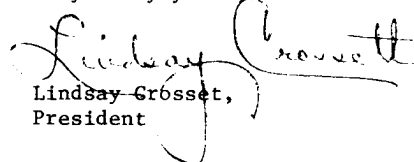
1. New Hires to pay a 7% contribution to Social Security
2. New Hires to pay a 1.3% contribution to CSRS
3. Full CSRS contribution/funding to be paid by employer
4. Any CSRS benefits paid to new hires to be off-set by any Social Security benefits received.

Such measures as amortization of the Governments's Cost could make this proposal one of a minimum annual appropriation.

NASCOE also wishes to point out that as a member of FAIR, it is working with other employee organizations in an attempt to develop an alternative, acceptable to a majority of FAIR's members, to be forwarded to you.

We respectfully request that consideration be give to NASCOE's position on this issue and that this statement be included in the record of the hearings on this matter.

Very truly yours,


Lindsay Grosset,
President



NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
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L. J. ANDOLSEK
PRESIDENT

GEORGE E. AUMAN
VICE PRESIDENT

HELEN T. PEDDRICK
SECRETARY

MONROE W. WILLIAMSON
TREASURER

STATEMENT OF L. J. ANDOLSEK, PRESIDENT
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
PRESENTED TO
SENATE SUBCOMMITTEE ON POST OFFICE, CIVIL SERVICE, AND GENERAL SERVICES
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS
ON THE
RETIREMENT CONTRIBUTION REQUIREMENTS OF POST-1983 FEDERAL EMPLOYEES

September 14, 1983

I am L. J. Andolsek, President of the National Association of Retired Federal Employees, commonly known as NARFE. I am pleased to present our views to this Committee on behalf of our half-a-million dues paying members, all of whom are, or soon will be, dependent on the Civil Service Retirement Fund as the major source of their retirement income. We commend you for holding this hearing on the effects of requiring future Federal employees to contribute to both the Civil Service Retirement System and the Social Security System, and appreciate the opportunity to present our views. NARFE is a member organization in the FAIR coalition, and although the views we are presenting today are our own, they are consistent with the basic principles outlined by that 25 member coalition.

Mr. Chairman, the 63 year old Civil Service Retirement System is a testament to the basic policy that employees of the Federal Government deserve a retirement system sufficient to meet their financial needs when they retire from the active workforce. As we approach the threshold of mandatory Social Security coverage for post-1983 Federal hires, we must ensure that no breach occurs in that longstanding commitment to the staff retirement system.

Champion of Retired Federal Employees

Under existing law, both current and future career employees are automatic participants in the Civil Service Retirement System, and NARFE is unalterably opposed to any legislative action which would eliminate or interrupt that full workforce participation. During the 20th Century, this nation has embraced a policy of encouraging employers to establish staff retirement plans for the protection of employees during their careers and for providing post-career income based on years of service by granting favorable tax treatment of employer contributions to those systems. For the Government itself to dismiss this policy by allowing even a temporary breach to occur in retirement coverage for new Government employees is inconsistent and unfair. Moreover, for the Government's top personnel officer to propose excluding new employees from the existing system while Congress works to establish a supplemental retirement program which, in his words, "may eventually be enacted" is unbelievable.

The systems which stabilize society and provide a framework for the protection and progress of our nation and its citizens are based on continuity.

The work of Government and indeed the business of life is always undergoing transition. Sincere efforts must constantly be made to eliminate inevitable duplications. However, in some situations a degree of duplication is essential to ensure both continuity and flexibility.

In an effort to gain support for increases in military spending, President Reagan referred to a "window of vulnerability" that would occur if we did not continue funding weapons systems based on current technology at the same time we develop new technologies for the future. We do not claim to be defense experts; however, we are retirement experts and NARFE can assure you that if the Administration succeeds in exempting future employees from participation in the Civil Service Retirement System, even temporarily, it will open a window of vulnerability that will never be closed.

Mr. Chairman, all employees of the Federal Government must be participants in the staff retirement system whether it be under the total retirement program available to past and current employees, or a yet to be developed supplemental program of benefits coordinated with Social Security for future employees. Until such a program is in place, however, the post-1983 employees must be included in the existing program. If the choice is between a lapse in retirement coverage or full employee contributions to both Federal retirement and Social Security, NARFE must opt for the latter.

As an organization representing former employees from all levels of government, including management and the highly technical, we fully recognize and have voiced concern about the recruitment problems that could result if new employees are required to contribute 14% of pay towards their retirement security. However, it would be extremely difficult to attract highly qualified candidates for Federal employment if we did not offer any retirement system, even for a short period of time, to compete with those available from private sector employers. A new survey by the U. S. Department of Labor found that 84% of full-time workers in large and medium size private companies are covered by private retirement plans as well as Social Security, and in most cases those plans are financed totally by the employer.

We also recognize that morale problems could result from inequitable treatment of current and future employees. Understanding that modifications may be necessary to the amounts of funding derived from each of the three current sources -- employees, employing agencies, and the Government -- does not change the basic premise that those funds must continue to flow into the existing Federal Retirement System and that new employees must continue to be covered by that System. It is presently the one and only retirement system of the Federal Government.

A number of proposals have surfaced which are consistent with the goals of continued funding and continued coverage that provide enough flexibility to offset any inequities that could arise from requiring new employee participation in both systems. Legislation you introduced to provide a tax credit for employees' contributions to the Federal Retirement System would address many concerns in these areas, although we recognize the practical problems facing enactment of such a plan. As various temporary measures are considered, it is critical that basic coverage in the system not be changed to achieve a short term solution. There can be no lapses in coverage or funding. This is the only way to assure that Congress will be able to consider a full range of options for a supplemental program, when all of the data from the Congressionally approved studies currently underway is available.

Mr. Chairman, NARFE commends you for your efforts to resolve the conflicts which will face the Federal retirement and personnel management systems next year. We look forward to working with you and your staff on addressing them in a temporary fashion and in the future development of a fair supplemental retirement plan for Federal employees hired after 1983. I would be happy to respond to any questions you may have.

STATEMENT BY

THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Mr. Chairman: We appreciate the opportunity to discuss the impact of social security and civil service retirement coverage on Federal workers hired on or after January 1, 1984. The issue is of pressing importance to current as well as future Federal employees and retirees.

Employees hired by the Federal Government after December 31, 1983 and employees who experience a break in service of more than one year, will contribute to and be covered by both social security and civil service retirement. Their total payroll deductions for retirement purposes will be 14 percent (7 percent for social security and 7 percent for civil service retirement). These deductions, coupled with the usual payments for Federal, State, and local taxes and health insurance, will place an extraordinary financial burden on new hires.

In 1982, Federal agencies spent \$93 million in special pay rates to recruit and retain qualified people in certain occupations. There is little argument that the Federal Government will experience even greater recruitment problems once the 14 percent deduction is implemented.

A partial, long-term solution will probably come in the form of a completely new retirement system for Federal workers covered by social security. The new system, which will either be integrated with social security or an add-on to it, will almost surely require less in employee payroll contributions than 14 percent. But it is doubtful the new system will be in place before late 1985.

In the meantime, Congress must take steps to alleviate the financial burden on new employees and to facilitate the Government's recruitment efforts. In doing so, however, you must ensure that the following criteria are met.

First, there should be no disruption of revenue to the current Federal retirement programs. The General Accounting Office, as you know, estimates that new hires will contribute nearly \$500 million over the next two years to the various Federal pension systems. Should these funds be cut-off, the systems' financial posture would be weakened and benefits could be jeopardized for current and future retirees. This must not be allowed to happen.

The second test that should be met is one of equity between present employees and those hired after this year. Current civil service workers pay 7 percent of salary toward Federal retirement and 1.3 percent toward Medicare, for a total payroll deduction of 8.3 percent. In order to avoid dissension between present and new employees, and to ensure a certain degree of fairness between the two groups, civil servants hired after this year should also contribute 8.3 percent of salary toward retirement or a figure as close to that as possible.

Several proposals are now being discussed as possible remedies to the problems that will be created by fully covering new employees with both social security and Federal retirement. One proposal that appears to meet our criteria would require new Federal employees to contribute the standard amount to social security (7 percent of the first \$37,500 in salary) and 1.3 percent to Federal retirement, for a total payroll deduction of 8.3 percent. In return, new civil service workers would be part of the current Federal retirement system until a new annuity program is designed and implemented. With respect to funding, Federal agencies would continue to make their contributions on behalf of new workers. In addition, however, a lump sum would be authorized to be paid to the Federal retirement systems by the Federal Government. This would make up the 5.7 percent contribution for which employees' would no longer be responsible.

NFFE could support this proposal. Yet, we could also support others should they meet the criteria summarized above. We simply urge Congress to recognize the severity of the pending problem and to work with all due speed to implement a viable solution.

This concludes my statement. I will be happy to answer any questions.

STATEMENT OF
ROBERT M. TOBIAS
PRESIDENT
NATIONAL TREASURY EMPLOYEES UNION

On behalf of the 120,000 Federal employees and retirees represented by the National Treasury Employees Union, we appreciate this opportunity to submit our views on S. 1522.

The issue of how to alleviate the large financial burden that will be placed on Federal employees hired on or after January 1, 1984 due to their inclusion under the Social Security System is one that must be addressed. We commend you, Mr. Chairman, for the leadership and responsibility you have shown in seeking a rapid legislative solution to this problem.

Let us state from the outset that we view this issue as critical not just as an immediate concern, but for the long-term retirement security of Federal employees. During the debate earlier this year on the Social Security Amendments of 1983 (now Public Law 98-21), we opposed the inclusion of new Federal and postal employees under social security for numerous reasons. We were primarily concerned about the effects of this change upon the future solvency of the current civil service retirement system and upon the morale of the workforce where workers performing the same job would be paying different amounts for their retirement. When the law was enacted, we were told that Congress was committed to ensuring the financial security of civil service retirement and of relieving new workers of the burden of paying into both systems.

The time has come for Congress to make good on its commitment. On January 1, 1984, newly hired Federal and postal workers will pay approximately 14 percent of their gross salaries in social security taxes and civil service retirement contributions. In addition, the Administration has endorsed a plan which, we believe,

would disrupt the continuity of funding to the civil service retirement system.

In hearings before the Subcommittee last week, Office of Personnel Management Director Donald J. Devine expressed the Administration's support for removing new employees totally from the civil service retirement system. Under this option, the employees would only pay into social security and would be allowed to purchase retroactive coverage in the new supplementary retirement plan that will be developed.

Having stated this position, however, the Director then went on to say that the Administration would be willing to consider requirements that the government continue to make contributions to the civil service retirement fund and to provide disability and survivor protection to these workers during that time. While we are glad that the Administration at least recognizes some of the problems associated with its recommendation, we cannot support this position.

It is not the fault of future Federal employees that Congress chose to cover them under social security while no supplementary retirement is in place. Given the complexity of developing such a retirement system and the extreme care and deliberation that must be taken before it is enacted, no one can say for sure exactly when the system would be in place. We believe that in order to protect fully the continuation of funding into the present system and protect employees to the fullest extent possible, a definite answer must be reached. The responsibilities of the government and the employees must be clearly articulated and enacted. Allowing new Federal and postal workers to remain

covered only by social security for an indefinite period is simply unacceptable.

We believe that another solution must be found. The General Accounting Office listed five options that could be pursued. One of these -- the idea of granting new employees a tax credit for their civil service retirement contributions -- has a great deal of merit, but it has drawn significant opposition to the point where it probably cannot be enacted.

We believe that the best solution available would encompass the following features:

- all new employees would remain under the civil service retirement system until a new supplementary plan is enacted when they would be placed under that system;
- new employees would pay the 6.7 percent FICA tax;
- new employees would also pay 1.3 percent of the contributions to the civil service retirement system; this would be done to ensure that all workers are paying the same amount of their salaries toward retirement;
- the government would continue to pay 7 percent for each employee into the CSR fund;
- the remaining 5.7 percent of the employees contribution would be paid out of general revenues to be amortized over a thirty-year period.

We believe that this system offers the best available means to deal equitably with the problem at hand. The GAO estimates that employee contributions by new hires in 1984 would total about \$470 million. Deducting the 1.3 percent that the employees would pay, means that the government would amortize the remaining amount to be paid in authorized annual installments over 30 years. There is precedent for this in that Congress chose to handle part of the funding for the present civil service retirement system in this fashion. This offers a low-cost alternative to the problem.

In addition, our proposal ensures fairness by requiring that all employees pay the same amount for retirement. This would alleviate any problems with administration and morale that would certainly develop under present conditions.

Finally, this solution would fulfill Congress' commitment to maintain the funding of the present civil service retirement system. Eventually, the long-term issue of what happens when employee contributions to the fund diminish will have to be addressed. But in the interim, the stability of the system during the period when a supplementary plan is developed will be ensured. We urge the Subcommittee to adopt our proposal.

This concludes our remarks. We will be glad to offer any further assistance possible to the Subcommittee.

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